

TAX POLICY UPDATE: INSIGHTS AND OBSERVATIONS AS CONGRESS ENTERS SUMMER RECESS

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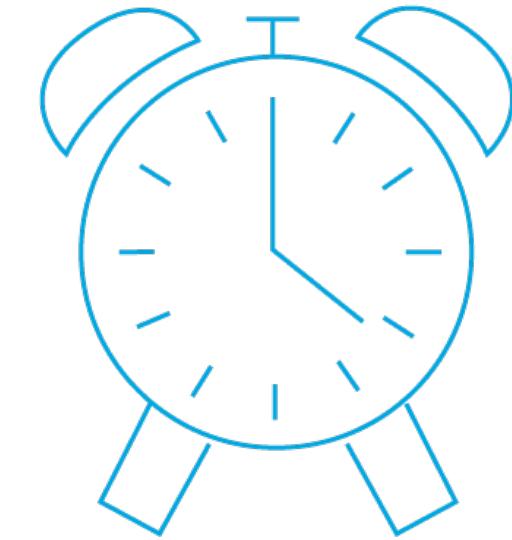
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Agenda

Topic	Time
Washington D.C. political landscape	15
Domestic tax policy update	20
IRS enforcement	10
The road ahead	15



CAPITOL HILL UPDATE

Congress “two track” approach

Infrastructure

- Bipartisan agreement
- Traditional infrastructure only
- No significant tax increases
- Senate passage shifts focus to House



Reconciliation

- Coordinated timing among Democrats
- Unified party necessary
- Potential for tax increases
- Time is the enemy



DOMESTIC TAX POLICY UPDATE

Potential tax increases



POSSIBLE

Highly-anticipated provisions

- Corporate tax rate increase
- Increase the top individual marginal tax rate to 39.6%
- Modifications to the GILTI regime (and other modifications to international tax provisions)



WATCH

Watch for provisions

- Tax long-term capital gains/qualified dividends at ordinary income rates (potential retroactive application)
- Elimination of ability to “step up” basis of appreciated property transferred at death
- Require taxation of carried interest at ordinary rates



TBD

To be determined

- Repeal deferral for certain like-kind exchanges of real estate
- Impose a 15% minimum tax on worldwide book income for corporations with income >\$2B

Search for revenue raisers: Murky path ahead

- Recently introduced legislation illustrates possibility of additional revenue proposals that may be considered by Congressional Democrats as the focus shifts to legislative activity under reconciliation
- Case in point: a series of possible reconciliation bill offsets from Senate Finance Committee Chair Ron Wyden (D-Ore.) that could impact partnerships and other pass-through entities
 - The "**Ending Carried Interest Loophole Act**" - would recharacterize income from wage-like income to lower taxed investment income and eliminate ability to defer tax payments (JCT: estimated to raise \$63B over 10 years)
 - The "**Modernization of Derivatives Act**" - would require annual mark-to-market treatment of derivatives; ordinary tax treatment of resulting gains and losses (JCT revenue estimate from similar version introduced in 2016: \$16.5B over 10 years)
 - The "**Small Business Tax Fairness Act**" - would modify the 20% deduction for certain pass-through entities under Section 199A

Weighing the factors for/against potential retroactive long term capital gains increases

Factors in favor

- Treasury Green Book specifies “Date of Announcement” as proposed effective date
- Reconciliation process facilitates passage
- Congress in need of revenue sources to offset cost of social programs
- 1993 lessons

Factors against

- Public sentiment against retroactivity
- Action -- precedent setting (no prior occurrence)
- 2022 mid-term elections
- 1993 lessons



IRS ENFORCEMENT

Investing in the IRS and improving tax compliance

IRS enforcement

- "Tax gap" strategies
 - Tax gap estimated to be about \$7 trillion over the next decade under current operations approach
 - Tax evasion, lack of transparency and insufficient IRS resources
- Alternative to legislative tax increases
- Potential IRS budget increase over the next decade
 - \$80B? \$40B?
 - Enhanced (21st century) technology
 - Significant hiring/training at all levels

Investing in the IRS and improving tax compliance

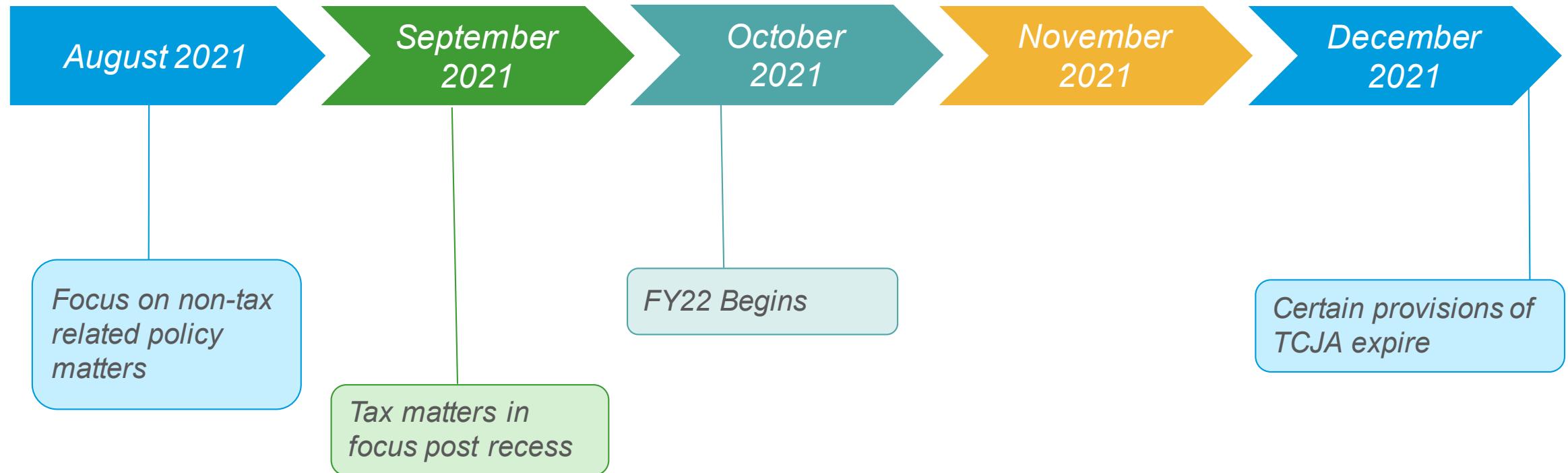
Enhanced focus on enforcement and service

- Enhanced information reporting
 - Identifying opaque sources of income through information reporting
 - Financial institutions
 - Virtual currency transactions
- Staffing increases in SBSE and Collection
 - Staffing will double in 2022
 - Focus on high-wealth individuals and abusive tax strategies

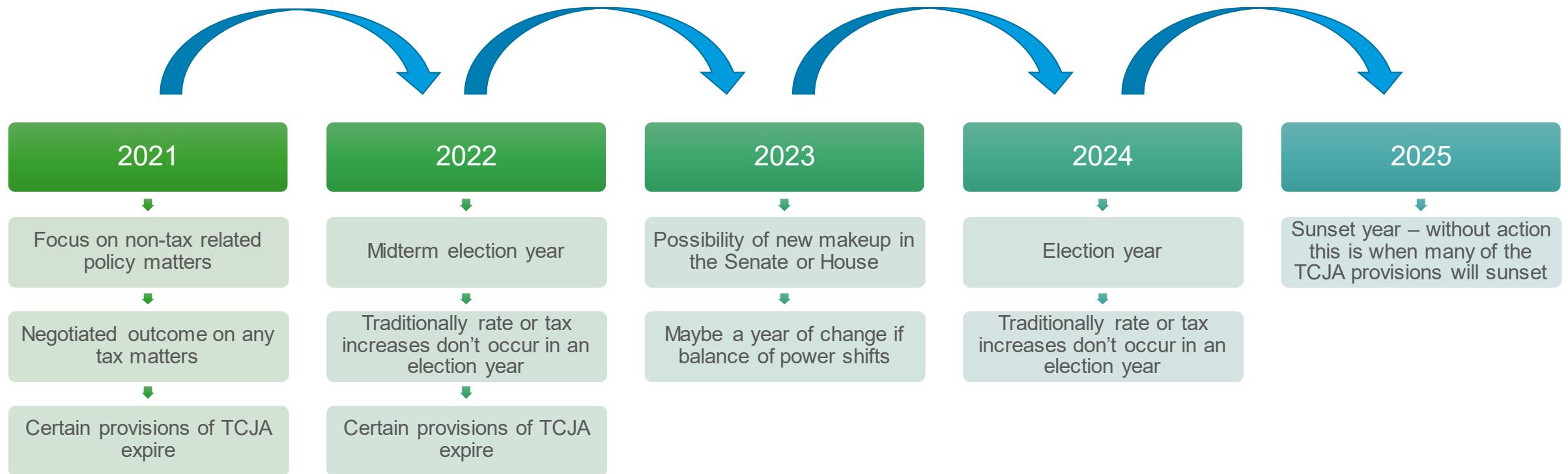


FUTURE TAX POLICY TIMING CONSIDERATIONS

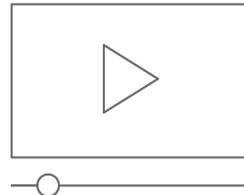
Future tax policy timing considerations



Future tax policy timing considerations



Resources



LIVE WEBCAST—AUGUST 18

[Take action on tax developments related to R&D expenses](#)

Join us as we discuss the approaching expiration of section 174 and the unfavorable changes to the capitalization of R&D expenses.



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